

TRANSLATION

Summary of the Saudi National Commercial Bank Audit Report  
SAMA SOURCE /AS

[Excerpts from the report]

----- Audit conducted with the NCB audit committee and Zakat Committee during the second half of year 1998.

----- The focus of the report concerns Islamic banking practices, Islamic charities accounts and operations within the bank. Accountability practices were also reviewed for establishing a higher control over general operations of the bank by the Saudi authorities.

----- Preliminary indications show operational revenues to reach SR 6,111.6 million, up from SR 5,675.2 million in 1997. Operational expenditures in 1998 are estimated to SR 5,127.9 million, up from SR 4,699.7 million in the preceding year.

Figures show a 2 per cent rise in net income to SR 1,062 million in 1998.

A net profit of SR 1,043.3 million was reported in 1997, up from SR 915 million in 1996, or an increase of SR 128.3 million.

Loans, advances and discounts (net) stood at SR 56,414.4 million, up from SR 46,290.1 million in 1997. Customer deposits increased to SR 65,743.6 million from SR 61,929.1 million in the year before.

Both assets and liabilities of the bank are balanced at SR 92,930.5 million, up from SR 86,438.1 million on the corresponding date of 1997. Contra accounts totalled SR 89,488.8 million down from SR 90,029.5 million in the year before.

The volume of its loan portfolio amounted at SR56.4 billion compared to SR46.3 billion in 1997. The investment

portfolio also increased from SR16.9 billion to SR19.2 billion.

The total deposits are estimated at SR65.7 billion against SR61.9 billion in 1997 with an increase of SR3.8 billion (6.2 percent).

Shareholders' equity increased to SR 8,027.6 million in 1998 from SR 7,786.7 million in 1997. The equity consisted of SR 6,000 million as paid up capital, SR 2,027.6 million as statutory reserve and SR 0.4 million as retained profits.

NCB's total assets at SR92.9 billion in 1998 against SR86.4 billion in the previous year, registering an increase of SR6.5 billion (7.5 percent).

The board of directors proposed to distribute SR 821.5 million as dividends to shareholders for 1998.

----- However, current trends show that a provision of SR 646.8 million will be needed to offset losses resulting from doubtful debts, compared to a sum of SR 450.5 million in 1997.

In addition to oil prices impact, the loan loss provision have negatively affected the bank profits since 1996.

----- We invite to a rapid relocation of assets and a reduction of loans and advances.

The overall result of these two movements will have a beneficial effect on the bank's capital and liquidity ratios, since loans and advances now represent 60 per cent.

----- Given the current market conditions, the public quotation of NCB will increase the negative impact of the current figures, while 1997 results were already affected by the allocation of SR 450.5 million to offset losses of doubtful debts, which is almost the same as the amount of SR 450.6 million earmarked for doubtful debts in 1996.

----- Last year economic conditions were as follows : Operational revenues of the bank in 1997 stood at SR 5,675.2 million, up from SR 5,320.3 million in 1996, while operational expenditures rose to SR 4,699.7 million from SR 4,351.2 million in 1996. Both assets and liabilities of the bank as on December 31, 1997 were balanced at SR 86,438.1

million, up from SR 80,052.5 million on the corresponding date of 1996. Contra accounts, however, dropped to SR 87,816.4 million in 1997 from SR 124,192.7 million in 1996.

----- Loans and advances (net) stood at SR 46,290.1 million, up from SR 38,171 million in 1996. Customers deposits reached SR 61,929.1 million from SR 58,004 million in 1996.

----- Shareholders' equity slightly rose to SR 7,786.7 million from SR 7,654.8 million in 1996. The equity consisted of SR 6,000 million as capital, SR 1,761.6 million as statutory reserves and SR 25 million as retained profits.

----- The board of directors proposed to distribute the profits as follows:

----- SR 260.8 million to the statutory reserves,  
 ----- SR 442.6 million to the partners before transformation of the bank into a joint stock company,  
 ----- SR 300 million to be distributed as dividends among shareholders,  
 ----- SR 14.7 million as Zakat,  
 ----- SR 25 million to be carried forward.

----- Offset losses from doubtful debts resulted from irregularities due to extensive and unreported loans and advances granted by and for the bank's directors.

----- As such, without knowledge of the Zakat Committee, NCB Directors established over the years credit and loans facilities for several charitable organizations, along with banking facilities that were not reviewed by the Committees.

----- Direct donations were received through those facilities to the Red Crescent Saudi Committee, International Islamic Relief Organization and Muwafaq Foundation.

----- Muwafaq charity received SR 11.38 million in loans and deposit.

----- NCB established special relations with the Saudi Joint Relief Committee for Kosovo and Chechnya and maintained two shared accounts with Al Rajhi Bank for the

Joint Relief Committee and International Islamic Relief Organization donations in Kosovo and Chechnya.

----- The special accounts were not authorized nor reviewed neither by the Audit Division nor by the Zakat Committee in 1998. SR 279.5 million were transferred through these two accounts to the International Islamic Relief.

----- We stress the importance of establishing clear rules for account managers in order to implement severe control procedures due to the international context, especially when dealing with charitable organizations.

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